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CENTRAL INTELLIGENCE AGENCY

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SUPPLEMENT TO  
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1. No branch of Yugoslav industry showed satisfactory results during 1950. The basic reason for this lay in the difficulties in obtaining equipment from abroad. The realization of the Economic Plan, which was worked out five years ago, will have to be abandoned and only the very mildest form of economic planning will take its place. Development of certain branches of industry will have to be restricted to a minimum.
2. Efforts to realize the target figures for the electro-technical, metallurgical and iron and steel industries will not be slackened for any reason. For political reasons, certain successes in the economic field are vital to the regime. They can be used as a stimulus to the recognition of the economic power of the country, which in turn will bolster up the power of resistance to foreign aggression.
3. There have been individual successes in certain fields of industrial production which merit high praise despite the fact that these successes have been obtained at the price of costly methods. A complete analysis of the situation necessitates a separate examination of each branch of production.

Mining Industry

4. Coal: Coal production was more or less satisfactory and the 1950 plan was achieved. It must, however, be noted that this plan had been reduced in comparison with the original targets for the fourth year of the Five Year Plan.
5. Non-ferrous Metals: The output of non-ferrous metals was not only unsatisfactory, it bore no relation to the original plan.

Petroleum Industry

6. The output of crude oil was a complete failure. Only 60,000 tons were produced against a planned total of 400,000 tons. The Donja Lendava wells only produced 30 percent of their target, and the new Serbian wells did not progress beyond the planning stage. This was largely caused by the breakdown of the national production of drilling equipment.

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7. Sabotage at the Bosanski Brod and Rijeka refineries reduced the possibility of processing imported oil.

Timber Industry

8. The timber industry achieved only 50 percent of the target set. This was caused by the lack of labor and the increasing migration of peasants to the cities. "Volunteer" brigades of students and town dwellers are no longer being formed. This reduction in timber output reduced building activity at home and exports abroad. Only Great Britain received the full quota. The Italian, French and Middle East markets were neglected because of the impossibility of supply a sufficient quantity of timber of the required quality and price.

Electric Power

9. The production of electric power did not reach 60 percent of the planned output. The most important new construction work was not carried out, as is shown by the following:
- a. The hydroelectric power station on Maribor Island, started under the German occupation, has not been completed.
  - b. The thermoelectric power stations at Kostolac, Budva and Bitolj are only half-completed and are not expected to be finished before September 1952.
  - c. The large hydroelectric power station on the Drim river, which was started in 1947-1948, is still under construction and the final date of completion cannot be estimated.
10. The diminished output of the Litostrój factory at Ljubljana and the failure to complete the Drim project have caused a serious situation which threatens to affect the economy of the whole country. The Drim station is largely linked with the economic life of Bosnia and Hercegovina, the electrification of the Ploce (Kardeljevo)-Sarajevo-Samac railroad line and the development of the aluminium industry on the bauxite deposits of Hercegovina.

Shipbuilding

11. The vital yards in the shipbuilding industry are the 3 May yards at Rijeka. Not only are they the most important, they also supply the smaller yards at Senj, Trogir, Split and Tivat.
12. Up to the second half of 1949, the 1948 rate of output was maintained, but during the second half of 1949 the situation deteriorated and remained at that level during 1950. The Plan had laid down the construction of five motorships per year. Not only was this not realized, but lack of rolled steel and Diesel engines forced the yard to reduce its activity to repairs only. By April 1951, a large number of these repairs were being carried out in Trieste and Italian ports.
13. The costs of the 3 May shipyard have risen appallingly, as not a single workman has been dismissed despite the decrease of output. This has been forced on the yard for political reasons. Most of the workmen are of Italian descent who came to Rijeka after World War II to obtain work or for political reasons. This situation is threatening a stagnation of the Yugoslav Merchant Marine.

Chemical Industry

14. Lack of vital materials and the disruptive effect of the production system caused the chemical industry to attain only 72 percent of the set target. Croatia and Slovenia were the worst affected.

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Cellulose

15. Lack of spare parts and of the necessary chemicals for the production of sulphitic cellulose, reduced the output of the Brezice and Bosnian industries to less than 50 percent of their targets. The continual change of technical and political managers has disrupted the Slovenian industries which represent 60 percent of the total output of Yugoslavia. The productivity of the workers, too, has fallen off considerably; they no longer have the drive and energy of the days immediately after the war.
16. The lack of cellulose and paper also affects the Yugoslav cement industry which has been deprived of the necessary packing materials.
17. The greatest efforts in the chemical industry have been in those commodities where the problem of raw materials was easier such as poly-vinyl chlorides, which achieved their target and, by exporting almost 100 percent of their output, greatly aided the balance of the Ministry of Foreign Trade.

Light Industries

18. The light industries have been very badly hit. The level of the output of Zagreb, the hub of the Yugoslav light industry, has been reduced to a level corresponding to that of 1944, the worst year since 1920. The main reasons for this are as follows:
  - a. Neglect by the Government in favor of heavy industry, particularly steel.
  - b. Lack of new equipment.
  - c. Lack of skilled technicians and workers, particularly in the foodstuffs industry.
20. Textiles: The textile industries were the worst hit of the light industries. Imports of wool and cotton yarns decreased as the State tended more and more to use the wool and cotton grown in the southern regions of the country. Modernization of plants moved very slowly. Only the Maribor and Varazdin combine realized the same output as in 1947-1948. The Paracin textile factory, one of the most modern wool cloth mills, which was transferred from Federal to Regional administration, only reached 33½ percent of the output of preceding years.
21. Aluminium: The aluminium manufacturing industries were the only branch of the light industries which showed an improvement.
22. Foodstuffs Industries: The following have been badly hit by the economic situation:
  - a. The fish and meat canning industries, which have great possibilities of exporting to Central Europe.
  - b. The salt fish exports to Italy.
  - c. The Vojvodina food industries.
23. The main cause of the debacle in the foodstuffs industries lies in the failure of the peasants and agricultural cooperatives to deliver the quotas laid down. The production of agricultural produce has not been supervised, or at best, only inefficiently controlled. Chaos has naturally followed.
24. The control of the State over the peasants is weak. By instituting "free markets" the State had the intention of releasing hoarded monies from the cities. At the same time, this very institution created a danger for the State industries dependent on agricultural produce, because the peasants did not fulfil their quotas for the controlled markets, being certain as they were of selling it at prices many times higher on the free market.
25. In the Vojvodina region, the sowing of beets has been decreased in favor of that of grain. By this means, the peasants have been able to sell more

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on the free market direct to the consumers. This has meant, however, that the sugar factories have not received their quotas, the output of sugar has diminished, the output of factories dependent on the sugar has been affected, sugar has disappeared from the home market and exports which brought a valuable source of foreign currency have decreased.

26. Agricultural Machinery: The Zemun works, producers of "ZMAJ" agricultural machinery, were given the task of supplying the bulk of the needs of the agricultural cooperatives. They also had to manufacture the greater part of the excavators for the canal construction work on the Tisa-Danube-Tisa canal. Their production has noticeably fallen off, mainly through the lack of raw materials, particularly rolled steel. Ploughs have had to be imported from Italy, but lack of foreign currency has restricted the extent to which defects of home production can be made up by imports from abroad. Plans for irrigation and the construction of navigable canals have been affected by the failure of these works.

27. Tobacco Industry: This has been one of the brighter spots in Yugoslav economy. The targets for the Five Year Plan have been reached.

Mining Industry:

28. The economic blockade exercised by the USSR and her satellite countries was a direct blow to the mining industry. The Yugoslav mines were already badly equipped before the war. German over-exploitation, partisan sabotage, and the destruction wrought by fighting, brought them to a state in 1945 where all equipment needed replacing within a short time. The Czech Trade Agreement included a section which provided for the re-equipping of the larger Yugoslav mines. Other agreements made in 1947 provided for the partial re-equipment of second and third class mines under the Five Year Plan. In addition, the work of Czech technicians placed at the disposal of the Yugoslav Government was of equal value to that of the equipment supplied by that country.

29. Many of the mines operating at the moment were to have been replaced by new mines, as they were becoming partially or totally exhausted.

30. Apart from the loss of Czech equipment and skilled manpower, the Hungarian reparations, which consisted in part of mining equipment produced by the Budapest metallurgical industries, was also lost. The possibility of obtaining supplies from the current production of Eastern Germany ceased with the expulsion of the Yugoslav Mission from East Berlin.

Effect of the Cominform Break on the Industrialization Plan

31. In 1948 the Yugoslav Government found itself in the middle of the execution of an economic plan which did not allow a step back, not only for political reasons but above all because the economy had been set off on a given track without considering whether it was good or bad, profitable or disastrous. After two years of ruthless adaptation of the country to this plan, which meant a complete industrial, financial and commercial transformation, they could not reverse everything without risking complete economic chaos.

32. At the beginning of the break with the Satellite bloc, Yugoslavia believed herself capable of solving matters on her own. By 1949, however, she had been convinced that this was impossible. This conviction came too late as the year of fighting the battle on her own had exhausted the country's economic resources. Attempts had been made to get the maximum output from their subterranean resources, to reduce grain and food consumption to a minimum, to give bonuses to exports in the hope of thereby covering their imports of equipment and machinery. These attempts, while not fruitless, caused a catastrophic lowering of the productivity of labor because the

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guaranteed minimum rations were insufficient. Workers began to leave their work in search of food in the provinces. Croatia was the first province to suffer noticeably from this lowering of the productivity of labor.

#### Effect of Loans by the West

33. The Yugoslav Government decided in 1949 to appeal for aid to the West. The aid from the Import-Export Bank and other minor financial loans were not of the size which could have an immediate and noticeable effect on the difficult situation. The Anglo-Yugoslav Agreement of July 1949 was a step towards closer lines with the West and it gave Yugoslavia the possibility of easing the difficult situation in the mining industry through barter with Great Britain, but the main problem remained unsolved. Negotiations with other countries did not give the expected results. The blockading countries extended their blockade on the European markets; they undercut Yugoslav prices and overbid their offers.
34. Italy responded better than France, Switzerland, Belgium and Holland to Yugoslav appeals. Yugoslavia tried, therefore, to increase her exports to that country and to South America using Italian middlemen. Large exports of tannin were sent to Argentina as re-exports from Italy. This procured a little necessary foreign exchange.
35. Negotiations with Western Germany, to whom Yugoslav at last turned, which could have largely solved the problem, have not reached a satisfactory conclusion.

#### Conclusions

36. Yugoslavia is in difficult straits but has not yet lost hope; she believes she can yet win her economic battle. Geographically, the worst spots, from the economic point of view, are Croatia and Serbia for different reasons.
37. Serbia: The Serb fatalistic attitude toward life, traditional hatred of the towns, and the reluctance of the Government to intervene for political reasons in an area which has shown the greatest support for their foreign policy, have created a paradoxical situation. Politically the Serbs are the Government's stoutest supporters, economically they create insurmountable difficulties. They support the attitude towards the Soviet Union, yet sabotage at every step the Government's internal and economic policy.
38. Croatia: In Croatia the Communist Party, with the exception of Vladimir Bekaric, the secretary, is anti-government. There is continual sabotage in industry.
39. Slovenia: Despite the most serious condition of certain industries, the position in Slovenia is better than in Croatia.
40. Bosnia, Hercegovina and Macedonia: The young technicians of Bosnia, Hercegovina and Macedonia are the elements which will probably stabilize and gradually improve the situation. The economic situation of Bosnia and Hercegovina is relatively better than that of the other republics. The output of coal and iron ore mines has been satisfactory; the productivity of labor is higher than elsewhere. The same applies to agricultural production. The initial upsurge of the young Macedonian industries has not spent itself. The experimental cotton and rubber plantations have given very good results; very good crops of rice have been raised. On an industrial, as compared to a geographical basis, it can be said that certain industries have shown great productivity and self-sacrifice to overcome difficulties, even though they may not have reached the planned targets.

41. Youth as a whole has remained faithful to the Government. Youth has no preconceived ideologies, is the least influenced by abroad, and was closely linked with the wartime struggle. If it were possible to release this

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youth from the army and allow them to return home, they could radically change the economic situation. Not only would the labor position, which is always difficult, be relieved but they would also have a profound psychological effect on the workers.

142. In the meantime, the Yugoslav Government has given up rigid economic planning. Boris Kidric, who defended the position that the Plan had to be carried out at all costs, even though it meant complete orientation towards the West, has been dismissed.
143. Politically the situation is not dangerous to the Government, who control the Armed Forces and the political strings of the country. "Democratic" opposition is lacking in courage and is disorganized. The closer the contacts with the West become, the less people believe in the "democrats".
144. The Cominform opposition is of a different nature. It is hidden and not easily uncovered. They have groups in the mountains of Bosnia and Montenegro but they are inactive. Their main effects lie in the disorganization of production, where they make use of reactionary engineers. Either they are waiting for the critical moment or they are reorganizing. In this respect, Montenegro will present the greatest difficulties to the Government, as the opposition is favored by the territorial location and mountainous nature of the country.

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